

GAO

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Committee on Banking, Housing, and Urban Affairs,  
U.S. Senate

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Department of Housing  
and Urban Development

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Mr. Chairman and Members of the Subcommittee:

We are here today to discuss the management challenges facing the Department of Housing and Urban Development (HUD) as it tries to transform itself from a federal agency whose major programs were designated as "high-risk" in our last High-Risk Series update in January 1999.<sup>1</sup> As you know, HUD's housing and community development programs directly or indirectly affect the lives of millions of Americans. HUD is responsible for making housing more affordable for about 4.5 million low-income people by insuring loans for multifamily rental housing and providing rental assistance. It is also helping to revitalize over 4,000 localities through community development programs, encouraging homeownership by providing mortgage insurance for about 7 million homeowners who otherwise might not have been able to qualify for loans, and managing about \$508 billion in insured mortgages and \$570 billion in guarantees of mortgage-backed securities. Given the magnitude of HUD's responsibilities, congressional oversight of HUD's management becomes vital for ensuring that the Department carries out its mission efficiently and effectively while maintaining the integrity and accountability of its programs and activities at the highest possible level.

This hearing and our comments today are cast against the backdrop of the powerful statutory framework that the Congress has put in place over the last decade to improve performance management and the accountability of the federal government. Through the passage of major management reform legislation such as the Government Performance and Results Act (GPRA), the Chief Financial Officers Act, and the Clinger-Cohen Act, the Congress has provided federal agencies with the tools for transforming themselves into high-performing organizations. While

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<sup>1</sup> High-Risk Series: An Update (GAO/HR-99-1, Jan. 1999).

the proper implementation of this framework holds much promise for promoting, creating, and sustaining high-performing federal organizations, this transformation does not come easily or quickly. Old ways of doing business must first be critically reexamined and new approaches must be developed and institutionalized. This process takes time and sustained commitment by all levels of management.

Our statement today will focus on (1) HUD's progress in addressing the major management challenges we have identified in the past and our plans for updating the risk status of HUD's programs; (2) issues HUD faces in ensuring that the reforms it has implemented are sustainable and will result in its becoming a high-performing federal agency, including our plans for monitoring HUD's activities; and (3) the importance of congressional oversight in ensuring that federal agencies like HUD, successfully manage for results in the 21<sup>st</sup> century. Our statement draws from a large body of completed as well as ongoing GAO work, including our reviews of various HUD programs, our reviews of HUD's strategic and performance plans, and work we have done across the federal government on management reform initiatives and performance-based organizations. In addition, it draws from reports issued by outside sources such as HUD's Inspector General, National Academy of Public Administration, and other consulting groups, as well as information recently reported to us by HUD.

In summary:

- Since 1994, we have designated HUD and/or its programs as "high risk" because of four long-standing departmentwide management challenges: weak internal controls, inadequate information and financial management systems, an ineffective organizational structure, and an insufficient mix of staff with the proper skills. Since then, HUD has continued to address its management challenges, most recently under the direction of its 2020 Management

Reform Plan which has guided the Department's efforts for over 3 years. In January 1999, we reported that HUD was making significant changes and had made credible progress in overhauling its operations to correct these management challenges.<sup>2</sup> We are currently assessing the results of HUD's reform efforts and plan to report on its progress early next year. One of the key questions that we will assess is whether the Department's reform efforts have demonstrated real and sustainable results.<sup>3</sup>

- In the future, HUD will have to resolve a number of issues if it is to continue the progress it has made, achieve the goals it has set for itself, and fully realize the benefits that can be derived from the performance management framework developed by the Congress. Some of these issues include the need to ensure continued top leadership commitment to reform efforts, thoughtful and rigorous planning for human capital and information technology strategies, and greater employee involvement in reform initiatives. Moreover, as HUD moves beyond its past management deficiencies and attempts to transform itself into a high-performing organization, it will face additional challenges, such as developing a true results orientation and becoming an integrated organization that is outwardly focused on its clients' and stakeholders' needs. These are the issues that the Congress, executive branch decisionmakers, and GAO will have to monitor to ensure HUD's success. We plan to conduct a significant body of work over the next 2 to 3 years that will explore the sustainability of HUD's management reforms as well as its progress towards becoming a high-performing federal agency.
- Finally, the importance of congressional oversight in monitoring a federal agency's management improvement initiatives cannot be overstated. The Congress should monitor

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<sup>2</sup> Major Management Challenges and Program Risks: Department of Housing and Urban Development (GAO/OCG-99-8, Jan. 1999).

<sup>3</sup> We provided these criteria to HUD through our August 2000 exposure draft entitled Determining Performance and Accountability Challenges and High Risk.

management improvement initiatives and provide the continuing attention necessary for these initiatives to be implemented successfully. We believe that GPRA provides a framework to help the Congress oversee an agency's management reform efforts. For example, the information generated through the act's planning and reporting processes can help the Congress make more informed decisions about such issues as whether an agency has the right mix of programs, is pursuing and achieving the right goals, is achieving real results with positive outcomes, and is effectively coordinating its programs to meet national needs.

### **HUD's Progress in Addressing its Management Challenges**

The four primary areas of concern that we identified at HUD in our January 1999 report are as follows:

Weak internal controls: These include weak management of the Section 8 subsidy payment process, which provides \$18 billion in rental assistance; a lack of control and management of staff resources to manage and monitor its real estate inventory, an inadequate early warning system to prevent losses through defaults in its single-family and multifamily insurance programs, and inadequate information or unreliable data.

Inadequate information and financial management systems: These systems, which HUD uses to manage its programs, such as the Federal Housing Administration's mortgage insurance programs, were inadequate because they were poorly integrated, ineffective, and generally unreliable. They neither satisfied management's needs nor provided adequate control over HUD's programs.

An ineffective organizational structure: An ineffective organizational structure has also contributed to management problems throughout HUD that cut across most of its housing and community development programs. Organizational problems included overlapping and ill-defined responsibilities and authorities between HUD headquarters and field organizations and a fundamental lack of management accountability and responsibility.

An insufficient mix of staff with the proper skills: HUD lacked assurance that it had the right number of staff with the proper skills to meet the needs of major program areas, such as the monitoring of its multifamily property managers. Imbalances occurred when significant reductions in HUD's staffing levels during the 1990s were not accompanied by any reductions in or consolidations of programs until after 1997.<sup>4</sup>

In 1999, we reported that HUD had made credible progress in addressing many of its management challenges, and since that time, we believe, the Department has continued to make progress. For example, HUD has

- started to resolve several of the material internal control weaknesses identified by the Inspector General, such as the weaknesses in early warning and loss prevention for insured mortgages;
- developed and deployed several major financial management systems;
- through its Real Estate Assessment Center, completed the first-ever physical inspection of nearly all of its assisted multifamily housing properties and public housing properties and found most of these properties to be in satisfactory condition; and

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<sup>4</sup> High-Risk Series: Department of Housing and Urban Development (GAO/HR/95-11, Feb. 1995); High-Risk Series: Department of Housing and Urban Development (GAO/HR/97-12, Feb. 1997); High-Risk Series: An Update (GAO/HR-99-1, Jan. 1999).

- changed its staffing by contracting for functions that it did not have sufficient capacity to handle properly and significantly increasing the number of staff trained and the amount of funds available for program and technical training.

Although we believe that progress is continuing at HUD, much remains to be done. For example, we recently reported that HUD has had difficulty correcting the performance problems identified through its monitoring of its new contractors, hired to manage and market HUD's single-family property inventory, and that the contractors continue to have difficulty with property maintenance and security issues.<sup>5</sup> Similarly, HUD encountered serious problems in converting to a new general ledger system, which prevented the Office of Inspector General from completing its audit of HUD's fiscal year 1999 financial statements by the mandatory deadline and resulted in HUD's receiving a disclaimer of opinion on its financial statements for that year. HUD also needs to continue its efforts to (1) verify tenant incomes to ensure that subsidized housing units are occupied by eligible families and that these families are paying correct rents and (2) modernize its information and financial management systems and reduce its reliance on older systems that do not meet its needs.

We are currently conducting our biennial assessment of the progress made by agencies across the federal government in addressing issues and programs that have been designated as high risk, including those at HUD. In making our determination of high risk at HUD and other federal agencies, we will consider the corrective measures that agencies have planned or have under way to resolve their management challenges, as well as the status and effectiveness of these actions. Some of the key factors we will consider in making our high-risk determination at HUD include the extent to which HUD has

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<sup>5</sup> Single-Family Housing: Stronger Measures Needed to Encourage Better Performance by Management and Marketing Contractors (GAO/RCED-00-117, May 12, 2000).

- demonstrated commitment to resolving its management deficiencies,
- strengthened controls to address its management deficiencies,
- proposed appropriate corrective action plans for its remaining management challenges,
- implemented effective solutions that will be substantially completed in the near term, and
- implemented solutions that will get to the root cause of its management deficiencies.

In considering whether HUD's corrective actions will be substantially completed in the near term, we will be looking for a high level of assurance that the actions will be completed within the next 2 years. The agency will need to demonstrate concrete results to date, with a clear path toward addressing any remaining problems. We have shared these criteria with HUD officials.

To conduct our assessment of high risk, we will use HUD's strategic plans, annual performance plans and reports, accountability reports, and audited financial statements. This information will be supplemented by relevant GAO reports, Inspector General reports, and other independent analysis. Finally, the ultimate determination will be based on the independent and objective judgment of GAO.

### **Sustaining Reform and Becoming a High-Performing Agency**

Many of the management challenges that HUD is trying to address are of long standing. They are complex and difficult problems that will not, and cannot, be easily or quickly resolved. Our management reform work across the federal government has shown that several key elements are often needed to implement and sustain major change initiatives such as HUD has



undertaken, to ensure that these initiatives genuinely take root and resolve the problems they are intended to fix.<sup>6</sup> These elements include

- demonstrated leadership commitment to and accountability for change,
- the integration of management improvement initiatives into programmatic decision-making,
- thoughtful and rigorous planning to guide decisions, especially those involving human capital and information technology,
- employee involvement to elicit ideas and build commitment and accountability, and
- organizational alignment to streamline operations and accountability.

Based on our work to date, several of these elements appear to be present in HUD's management reform efforts. At the same time, we have not yet completed our work. In any event, we believe that vigilant monitoring of these issues will be critical over the next several years. Strong and continuing congressional leadership and oversight, and monitoring by HUD's Inspector General and GAO, will be necessary to ensure that the changes the department is trying to achieve are sustained and result in real reform.

However, sustaining change should not be HUD's final goal, but rather a means to achieve the end result of becoming a high-performing federal agency. Looking across the federal government we have found that changing a federal agency into a high-performing organization is not an easy task and often requires a cultural transformation under which

- hierarchical management approaches yield to partnerial approaches,
- process-oriented ways of doing business yield to results-oriented ones,

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<sup>6</sup> Management Reform: Elements of Successful Improvement Initiatives (GAO/T-GGD-00-26, Oct. 15 1999).

- siloed organizations—overburdened with overlapping functions, inefficiencies, and turf battles—become integrated organizations, and
- internally focused organizations start to focus externally in order to meet the expectations of their clients and stakeholders.

Our work has shown that high-performing organizations consistently strive to ensure that they have clearly defined and well-communicated organizational missions, values, and goals and that these values and goals drive their day-to-day activities to achieve expected results. When organizations transform their cultures so that achieving results becomes the driving concern of their daily operations, fundamental performance improvements occur, thereby helping the organization to deliver the products and services at the cost and with the quality that the American people expect of their government.

At HUD, as at other agencies across the federal government, we believe that a considerable amount of work still needs to be done to ensure that the department's commitment toward ongoing reforms ultimately translates into the efforts necessary for HUD to become a high-performing organization. In this regard, we are working with the cognizant congressional committees, to develop a significant body of work that we anticipate undertaking over the next 2 to 3 years. This work will explore the sustainability of HUD's management reforms as well as HUD's progress toward becoming a high-performing federal agency. Some of these reviews include assessments of HUD's

- human capital management strategies, such as workforce planning,
- information systems to ensure that they provide managers and employees with the information they need to meet key program objectives,

- procurement processes to determine whether the agency gets contracted services delivered, on time, and at the agreed costs, and
- service delivery plans to determine whether the services provided will meet clients' needs.

### **Managing for Results and the Importance of Congressional Oversight**

The challenges we have discussed today are not exclusive to HUD. Rather, they are common to all government agencies attempting to meet the expectations and needs of the nation in the 21<sup>st</sup> century. The performance and accountability of these agencies needs to be enhanced to get the most out of the available federal resources and forge effective approaches to both new and long-standing national problems. GPRA provides the impetus for improving the effectiveness of federal programs by shifting the focus of management and decision-making from a preoccupation with staffing and activity levels to a broader focus on the results or outcomes of federal programs. GPRA has the potential to help the Congress and the executive branch ensure that the federal government provides the results that the American people expect and deserve. It also has the potential, if properly implemented, to help improve the public's respect for and confidence in their government.

However, our work has consistently shown that integrating GPRA into an agency's operations does not come quickly or easily. It has been almost 3 years since the requirements of GPRA were implemented across the executive branch, and although substantial efforts have been undertaken and progress has been made, much of the act's potential remains unrealized. For example, our reviews have shown that much more progress is needed to link agencies' performance goals to their budget presentations, so that the performance consequences of budget decisions can be clearly understood. Similarly, most agencies' plans have not sufficiently addressed how the agencies will use their human capital to achieve results.

Our work has found that fully integrating GPRA into agencies' operations requires dedicated and persistent leadership. Managers must use goals and performance data as a basis for their organizations day-to-day operations and for holding units and individuals accountable for results. It requires leadership on the part of the Office of Management and Budget to ensure that performance data are used to make informed budget decisions and that agencies take the implementation of GPRA seriously. Finally, it requires the Congress in its various capacities—oversight, authorization, appropriation, and confirmation of political appointees—to use GPRA in its efforts. For example, the Congress, in its oversight role, can monitor federal management improvement initiatives to ensure that they do not become hollow, paper-driven exercises that are not integrated into the agencies' day-to-day activities. In particular, the concepts, practices, and products associated with GPRA can help the Congress in its decision-making and strengthen its oversight in the following areas:

Attacking activities at risk of fraud, waste, abuse, and mismanagement: The annual planning process of GPRA provides an excellent tool to help address high-risk functions and programs and to ensure that clear accountability for progress is established. For example, our work has shown that precise and measurable goals for resolving mission-critical management problems are important to ensuring that agencies have the institutional capacity to achieve their more results-oriented programmatic goals.

Improve the economy and efficiency of federal programs: In many federal programs areas, such as housing, a range of service delivery mechanisms and program tools are used to deliver programs and services. GPRA provides the opportunity to examine these program structures and strategies to ensure that the agencies have the best, most cost-effective mix in place to meet their goals. Such an examination can also help identify opportunities to improve performance and reduce costs.

Reassess what the federal government does: GPRA is perfectly suited to help the Congress and the executive branch identify and address programs that may have outlived their usefulness. Performance goals that focus on the results of programs and performance reports that show what has been accomplished can provide the Congress with critical information on the value of continuing certain programs.

Redefine the beneficiaries of federal programs: GPRA can also help the Congress as it considers redefining program beneficiaries. By examining agencies' goals and progress made in achieving those goals, congressional decisionmakers can determine where federal benefits could be better targeted to improve results and/or cut costs.

Rationalize crosscutting program efforts: Virtually all of the results that the federal government strives to achieve require the concerted and coordinated efforts of two or more agencies. If GPRA is implemented properly, the Congress will receive new information on crosscutting programs. This information can help the Congress identify agencies and programs with similar missions, and consider the associated policy, management, and performance implications of crosscutting programs.

Build the capacity to gather and use performance information: Under GPRA, agencies are to communicate to the Congress how they will verify and validate the performance information that they will use to show whether goals are being met. The Congress can then use the information provided by the agencies to obtain a clearer picture of their contributions to improvements in citizens' lives.

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In conclusion, Mr. Chairman, the management challenges that HUD faces today have developed over decades and will certainly take some time to be fully resolved. We believe that the agency is making credible progress in overcoming its management challenges consistent with its 2020 Management Reform Plan. However, HUD's ultimate success will depend on its ability to sustain the efforts that it currently has underway. This sustainability is critical if HUD is to complete the transformation into a high-performing federal agency and be in a position to deliver the programs and services that the American people expect and deserve from their federal government.

The Congress has provided HUD and other federal agencies with the tools they need to focus on results. It is now up to these agencies to implement these tools properly and deliver the expected results. However, only the Congress, in its various capacities of oversight, authorization, appropriation, and presidential appointee confirmation, can ensure that the transformation to performance-based organizations is completed successfully and that federal agencies are held accountable for results. Our goal is to continue to help and support the Congress in these efforts.

Mr. Chairman, that concludes our prepared statement. We would be happy to answer any questions that you or Members of the Subcommittee may have.

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# Defense Report

from AUSA's Institute of Land Warfare



## AUSA Torchbearer Issue:

### The Fiscal Year 2000 Defense Budget — Path to Unpreparedness

For the past 14 years, the defense budget has been declining; the result has been a peace dividend of three-quarters of a trillion dollars for American taxpayers. However, we must now make adjustments because the dollars we are currently dedicating to the defense budget are a sure path to military unpreparedness.

The post-Cold War defense budget has been insufficient to carry out the national military strategy of engagement. Readiness has declined. The nation's defense establishment is fragile and increasingly in jeopardy of not being prepared to fight two near-simultaneous major theater wars while carrying out the day-to-day strategy of continuing international engagement. This situation emerged as a major defense issue in the fall of 1998 and continues to be a crucial issue being addressed by the President, the Secretary of Defense and Congress.

The gap between defense resources and requirements was a major national defense issue that was addressed by AUSA throughout 1998. The public debate of that issue continues into 1999.

AUSA's June 1998 assessment of the Fiscal Year 1999 defense budget pointed out that the most severe problem facing the Department of Defense is the funding gap which exists between the defense budget top line and the requirements of current operations and readiness, and the need for modernization. In the 1999 Resolutions promulgated at its Annual Meeting in October 1998, AUSA recommended that a reasonable share of the Gross Domestic Product (GDP) should be devoted to national defense, growing to something approaching 4 percent. And in his Torchbearer Message of January 1999, AUSA's president linked the shortfall in

funding with the decline in both short- and long-term military readiness.

What are the factors that have contributed to this emerging readiness gap?

First, the U.S. armed forces, reduced in size by some 40 percent since 1989, are at the forefront of the nation's international leadership role—carrying out a strategy of engagement with other countries worldwide. The national defense establishment is the primary instrument of national power in preserving U.S. interests abroad. In addition to 100,000 servicemen and women stationed in the Pacific, there are 100,000 stationed in Europe; complementing these forces stationed abroad are personnel involved in a wide range of operations, from peace operations (Bosnia, Sinai) to contingencies involving the possibility of warfighting missions (Kuwait, Korea). The Army alone has about 30,000 personnel away from their home stations on any given day, in about 70 countries, conducting some type of engagement mission. The other services have similar demands placed on their servicemembers and operating units.

The increasing number and scope of these operations—the operational tempo, or OPTEMPO—lead to repetitive deployments for individual servicemembers—personnel tempo, or PERSTEMPO—and significantly greater wear and tear on equipment. The costs for many of these operations are borne by DoD, requiring transfer of funds from other accounts, particularly accounts that would otherwise address training, modernization and infrastructure needs. The result is lessened readiness to meet the demands of major contingencies, including the capability to fight a major theater war to protect more vital U.S. interests.

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Second, the pace of technology, and its availability on the world market, is escalating, giving to potential adversaries potent capabilities heretofore limited to more major powers. This pace and scope of change, particularly with regard to information processing, is referred to by many as a revolution in military affairs (RMA). The RMA compels the U.S. armed forces to concurrently expend resources for ready and deployable forces to meet the more immediate contingencies and resources to address the doctrine, equipment and training requirements for RMA forces in the next decade or two. Shorter-term needs and longer-term needs compete for the same resources, with both losing most of the time.

Third, the threat to U.S. national security interests has changed from the Cold War focus on the former Soviet Union to multidimensional, unpredictable threats that range from terrorism, weapons of mass destruction, organized drug and criminal cartels, to the potential for major battlefield engagements in two or more far-flung parts of the world at the same time. Because no other country or nonstate actor is expected to have the warfighting capabilities to match those of the U.S. military for some time, potential adversaries can be expected to seek these other (asymmetric) means to counter U.S. capabilities, posing a new threat dimension to U.S. security.

This threat environment means the military services, while expending resources to maintain present military superiority, must also devote scarce resources to developing capabilities to counter asymmetric threats and, further out, a potential peer competitor. Without adequate investment in the capabilities to counter these threats, our armed forces will be unprepared to carry out the nation's military strategy.






The President's proposed FY 2000 defense budget would increase spending by \$12 billion; increases totaling \$112 billion are proposed over the next six years. The FY 2000 figure includes \$2 billion for Bosnia and \$2.5 billion for pay and retirement increases; the balance of \$7.5 billion is slated for modernization. However, the balance is to be generated primarily by savings that DoD can retain from expected lower rates of inflation and fuel costs.

In testimony before the House Armed Services Committee, the Army's Chief of Staff, General Dennis J. Reimer, pointed out that the "FY 2000 budget proposal is only a down payment on the resources needed to . . . assure future readiness." The Joint Chiefs pointed out last September that the funding needs of the services to fix the readiness problem are closer to \$20 billion for FY 2000 and about \$150 billion over the six-year period.

The corner may have been turned on defense spending. And the President's proposal may be the start of a process to shore up the readiness shortfall of the armed forces. However, the approach thus far provides little real money; it depends heavily on assumptions about future fuel costs and the rate of inflation. It also falls significantly short in meeting the services' requirements as stated by the Chairman and the service chiefs. Serious consideration must be given to providing full funding without reliance on transitory fuel and inflation savings.

To the national public agenda, where Social Security is presently a major concern, must be added the debate of national security and the needed adjustments to resourcing so the armed forces will be prepared to carry out the national security strategy.

#### Summary and Talking Points

-  Post-Cold War defense funding is insufficient for the armed forces to carry out the national military strategy. Consequently, military readiness, both short- and long-term, has suffered.
-  Worldwide operational missions have stretched the armed forces due to increased operating tempo, personnel tempo and the uncertainty of bearing the financial costs that require diversion of resources from modernization and infrastructure needs.
-  The rapid pace of technology and its availability to potential adversaries compel the services to devote resources to both short- and long-term capabilities. Without adequate resources, both long- and short-term readiness will continue to suffer.
-  The President's budget addresses the readiness shortfall; however, the \$12 billion increase (based in part on savings from lower inflation and fuel costs) proposed for FY 2000 and the \$112 billion increase over six years fall short of the recommendations of the JCS (\$20 billion in FY 2000 and \$150 billion over six years).
-  Much more serious consideration must be given to providing full funding without reliance on transitory fuel and inflation savings and consistent with the military advice of the JCS. A national debate on Social Security is underway; national security must also be added to the national agenda.



(AUSA has established a series of Torchbearer messages to highlight current issues that impact the Total Army. This and future selected *Defense Reports* are designed to address these issues by providing succinct, factual information so that Association members and leaders can effectively participate in the national defense debate and help build support for a strong Army. Additional information is available on the AUSA homepage at [www.ausa.org](http://www.ausa.org).)